

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 USIE-00 FRB-03 ABF-01 NEA-10

SSO-00 INRE-00 CIAE-00 DODE-00 INR-07 NSAE-00 PA-01

PRS-01 SP-02 AID-05 EB-07 NSC-05 CIEP-01 TRSE-00

SS-15 STR-04 OMB-01 CEA-01 IGA-02 OPR-02 AF-06 /094 W

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 9617

INFO AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY BONN

AMEMBASSY TOKYO

USMISSION OECD PARIS

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DEPARTMENT PASS TREASURY FOR UNDER SECRETARY YEO AND
DONALD E. SYVRUD

E.O. 11652: N/A

TAGS: EFIN, UK

SUBJECT: STERLING CONTINUES TO FALL

REF: LONDON 3507

1. HAVING CLOSED IN LONDON FRIDAY AT \$1 9820 WITH FURTHER FALL IN NEW YORK TO THE \$1.9680 LEVEL AFTER LONDON'S CLOSING, STERLING TRADING BEGAN MONDAY AT 8:00 AM LONDON TIME OPENING AT \$1.9670 TO \$1.9680. HEAVY SELLING PRESURE WAS NOTED AT 9:00 AM WITH MANY SELLERS AND FEW BUYERS, STERLING FALLING TO \$1.9280. THE MARKET SENSED BANK OF ENGLAND INTERVENTION AT ABOUT THE \$1.93-\$1.94 LEVEL WHICH FOR THE MOMENT APPEARS TO BE A SUPPORT LEVEL, WITH BUYERS COMING IN AT THAT POINT. STERLING MOVING

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WITHIN LARGE MARGINS, A MINIMUM OF 20 BASIS POINTS.
BOTH BOE AND LARGE COMMERCIAL BANK DEALING ROOMS CONSIDER
THE MARKET TO BE "CERTAINLY ERRATIC." STERLING AT 11:00
AM LONDON TIME IS CURRENTLY TRADING IN THE \$1.9430
TO \$1.9450 RANGE. THERE ARE ALMOST NO COMMERCIAL OPERA-
TIONS, IT BEING "A BANK GAME."

2. STERLING'S TRADE-WEIGHTED DEPRECIATION OPENED AT 32.4
AND FELL LOWER. MOST ACTIVITY IS IN DOLLAR-STERLING
ALTHOUGH FRENCH FRANC ALSO REPORTEDLY ON THE SNAKE
FLOOR WITH A WEAKER DOLLAR-DM RATE NOTED. AT 11:00 AM,
6-MONTH FORWARD RATES HAVE NARROWED FROM 4.35 TO 4.50
CENTS AT OPENING TO 3.85 TO 4.05 CENTS GIVING, AS ONE
DEALER PUT IT, ROUGHLY A \$1.90 POUND SIX MONTHS OUT.
TWELVE-MONTH DORWARDS HAVE ALSO NARROWED SLIGHTLY, FROM
EIGHT CENTS AT OPENING TO 7.40 TO 7.45 CENT RANGE, TAKING
STERLING TO \$1.87 LEVEL A YEAR OUT.

3. BOE IS CURRENTLY ATTEMPTING TO STEADY THE MARKET
GIVING SOME SUPPORT TO TEST WHAT MARKET MIGHT CONSIDER TO
BE A FLOOR. BOE REPORTS THAT WHEN IT IS SEEN TO BE IN
THE MARKET, THE MARKET TENDS TO STEADY, SOMETIMES JUMPING
UPWARDS IN AN ERRATIC WAY. FOREIGN EXCHANGE DEALER
CONFIRMS THIS, SAYING BOE WILLINGNESS TO COMMIT ITSELF
AT \$1.94 LEVEL HAS HELPED STEADY MARKET IN FIRST THREE
HOURS OF TRADING.

4. BOE AND MARKET SOURCES TRYING TO ASSESS DEVELOPMENTS
NOTE THAT THURSDAY AFTERNOON'S AND FRIDAY'S HEAVY SELLING
WAS BROADLY BASED, INCLUDING SOME MIDDLE EAST AND SOME
OIL PRODUCER SALES. MARKET REPORTS PLACE INITIAL DROP OF
STERLING ON THURSDAY AFTERNOON TO NIGERIAN SALES BUT BOE
WILL NOT SPECIFICALLY CONFIRM THIS.

5. SOME OBSERVERS NOTE THAT ADDITIONAL DROP IN MINIMUM
LENDING RATE TO 9 PERCENT LAST FRIDAY APPEARS INCONGRUOUS
IN LIGHT OF BOE SUPPORT OF STERLING AT FRIDAY'S
LEVELS. SINCE WEDNESDAY'S CLOSE (\$2.0245) STERLING-
DOLLAR RATE HAS FALLEN 4 PERCENT; TRADE-WEIGHTED RATE HAS
WIDENED 2.3 PERCENTAGE POINTS BASED ON 32.4 RATE. MAR-
KET REMAINS VERY UNSETTLED AND NERVOUS. AT LEAST ONE
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MAJOR US BANK HERE HAD EXPECTED FRENCH FRANC DEVALU-
ATION LAST WEEKEND. ONE SIDE BENEFIT OF STERLING'S CUR-
RENT FALL IS THAT IT WILL ALMOST CERTAINLY REMOVE SOME
LEFT WING LABOR PARTY AND TRADE UNION PRESSURE FOR
IMPORT CONTROLS.

ARMSTRONG

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